Government of Newfoundland and Labrador
Department of Finance

Newfoundland and Labrador Municipal Financing Corporation

Annual Report

March 31, 2014

Newfoundland and Labrador Municipal Financing Corporation
Annual Report
March 31, 2014

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September 4, 2014

Honourable Charlene Johnson
Minister of Finance
Government of Newfoundland and Labrador
Confederation Building
St. John's, NL
A1B 4J6

Dear Minister Johnson:

In accordance with Section 13 of the *Municipal Financing Corporation Act,* section 9 of the *Transparency and Accountability Act* and on behalf of the Board of Directors, it is my pleasure to submit the annual report of the Newfoundland and Labrador Municipal Financing Corporation (NMFC) summarizing the Corporation's activities for the fiscal year ended March 31, 2014.

NMFC was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency. The proceeds of these borrowings were then used to provide long-term financing to meet the capital requirements of municipalities. In 2005-06, Government decided to no longer finance its portion of municipal capital projects through NMFC as most municipalities finance their share independently through financial institutions. Consequently, NMFC is in the process of winding up its operations. This report outlines the progress made in 2013-14 on the collection of outstanding receivables and payment of outstanding debenture debt.

The Board of Directors has approved the financial statements and other information contained in this annual report, and the Board is accountable for the results reported herein.

Sincerely,

Donna Brewer

Donna Brewer
Chair of the Board

CORPORATE OVERVIEW

Authority

The Newfoundland and Labrador Municipal Financing Corporation (NMFC) was established in 1964 and operates pursuant to the provisions of the *Municipal Financing Corporation Act*. NMFC operates with a March 31 fiscal year end and the results of its activities are fully consolidated in the Province's annual financial statements.

Purpose

The Corporation was established to consolidate the long-term borrowing programs of all municipalities in one central Crown agency.

Board Representation and Accountability

The affairs of NMFC are overseen by a Board of Directors appointed by the Lieutenant Governor in Council. All Board members are employees of the Province with the position of Chair held by the Deputy Minister of Finance. The Board meets no less often than annually and approves its Annual Financial Statements and Annual Report, both of which are then tabled in the House of Assembly by the Minister of Finance. The members of the Board as at March 31 and their positions were as follows:

Ms. Donna Brewer (Chair)
Deputy Minister of Finance

Mr. Alastair O'Rielly
Deputy Minister of Innovation, Business and Rural Development

Ms. Colleen Janes
Deputy Minister of Municipal Affairs

Mr. Peter Au
Assistant Deputy Minister of Taxation and Taxation and Fiscal policy Branch
Department of Finance

Mr. Paul Myrden (Secretary)
Director of Debt Management
Department of Finance

Operational and Corporate Information

NMFC has no direct employees as the day-to-day affairs are administered by employees of the Department of Finance. On a quarterly basis, the Province invoices NMFC for its share of the salary costs of the employees who are involved in its administration. Contact information is as follows:

Mailing Address:

Newfoundland and Labrador
Municipal Financing Corporation
c/o Department of Finance
Confederation Building
East Block, Main Floor
P. O. Box 8700
St. John's, NL
A1B 4J6

Office Location:

Debt Management Division
Department of Finance
Confederation Building
East Block, Main Floor
Telephone: (709)-729-6686
Fax: (709) 729-2070

Departmental Website:

www.gov.nl.ca/fin

SHARED COMMITMENTS

An important issue for the Corporation, and the Province as guarantor of the Corporation's debenture debt, is the level of municipal loan arrears. Loan arrears at March 31, 2014 amounted to $3.0 million (2013 - $3.3 million). Historically, the Corporation collected a significant amount of arrears through the interception of municipal operating grants and from allocations from a Reserve Fund established with the Corporation and funded by the Province to assist towns most in need. Subject to the approval of the Minister of Finance, the Fund was periodically allocated as the Department of Municipal and Intergovernmental Affairs (MIA) completed negotiations with town councils to determine the eligible levels of financial assistance towards arrears.

Given that NMFC is no longer borrowing and lending the proceeds to municipalities, it does not have sufficient leverage with individual municipalities that can be used to collect outstanding amounts receivable. Consequently, the Corporation is reliant on MIA to take the necessary action to address outstanding arrears.

During the 2009-10 year, the Corporation reached an agreement with MIA on a strategy to reduce and ultimately eliminate arrears on municipal loans. The components of this strategy were as follows:

- MIA would make a lump sum payment of $4 million to the Corporation. This was received in November 2009.
- This $4 million would be combined with existing Debt Relief funding of $1.77 million for a total of $5.77 million available to be applied against arrears.
- The Corporation would discontinue the application of late fees on accounts in arrears effective November 1, 2009.
- MIA would negotiate repayment arrangements with communities in arrears and provide the Corporation with periodic direction on the application of the $5.77 million to individual accounts in arrears.
- MIA would monitor active loan payments and implement additional collection efforts as required.

In addition to the agreed payment of $4 million, a further $1 million was paid by MIA to the Corporation in March, 2010 for future application against arrears bringing the total available to $6.77 million.

From April 1, 2010 to March 31, 2013, a total of $2.52 million was allocated from the Reserve Fund and applied to municipalities in arrears. During fiscal year 2013-14, an additional $43,000 in late fees relating to six municipalities was allocated from the Reserve Fund and applied to their arrears, leaving a balance in the Fund of $4.21 million.

HIGHLIGHTS AND ACCOMPLISHMENTS

Government has decided that the Corporation wil! no longer be used as a vehicle to finance the Province's share of the cost of municipal capital projects. Since most of the Province's municipalities already arrange long-term financing from banks and other financial institutions, the Corporation is in the process of winding up operations as it collects the loan portfolio and retires its debenture debt and this process continued during the fiscal year.

Collection of outstanding loans receivable in 2013-14 amounted to $14.2 million as the Corporation's loan portfolio was reduced from $51.7 million to $37.5 million. During the same period, outstanding accounts receivable, consisting of arrears on loan payments, decreased from $3.3 million to $3.0 million.

The net debenture debt of the Corporation decreased from $35.4 million to $25.6 million due to loan repayments of $9.8 million during the year.

REPORT ON PERFORMANCE

Progress on Strategic Priorities

As a result of a Government policy decision, NMFC discontinued its capital markets borrowing program several years ago with any subsequent municipal requirements to be met through the annual budgetary process. Consequently, NMFC is currently in the process of gradually winding down its operations through the collection of its outstanding loans receivable and retirement of its remaining debenture debt as it matures. This activity was the focus of NMFC's 2011-14 Activity Plan. As detailed below, NMFC has met its collection and repayment priorities for the 2011-14 fiscal year time frame.

Goal:

By March 31, 2014, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections as set out below:

Objective by Fiscal Year	Debt Maturities	Loan Collections
	($ thousands)	($ thousands)
2011-12	$ 25,116	$ 17,907
2012-13	19,816	16,602
2013-14	9,816	14,168

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators:

- Net outstanding loans to municipalities reduced by $48,677,000.
- Net outstanding debenture debt reduced by $54,748,000.

Results of 2011-14 Goal

- Net outstanding loans to municipalities reduced by $48,689,921.
- Net outstanding debenture debt reduced by $54,748,000.

2011-14 goals of reducing net balances of outstanding loans receivable and debenture debt payable have been met.

Objective:

By March 31, 2014, NMFC will have executed the collection of loans receivable and payment of debenture debt in accordance with the schedule of planned payments and collections for the fiscal year 2013-14.

Measure: Net balances of outstanding loans receivable and debenture debt payable reduced by planned amounts.

Indicators (amounts in thousands):

- Net outstanding loans to municipalities reduced by $14,168.
- Net outstanding debenture debt reduced by $9,816.

Results of 2013-14 Objective (amount in thousands):

- Outstanding loans to municipalities have been reduced by $14,156.
- Outstanding debenture debt was reduced by $9,816.

Variance of 2013-14 Objective:

- The amount collected on loans to municipalities is less than forecast as a result of an early loan payout in a previous fiscal year.

OPPORTUNITIES AND CHALLENGES AHEAD

The major challenge for the upcoming year will be the continuing implementation of the strategy agreed to with MIA in 2009-10 with respect to outstanding municipal arrears as detailed in the Shared Commitments section.

NMFC's activity plan for the 2014-17 planning cycle was tabled on June 27, 2014.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The financial statements of the Newfoundland and Labrador Municipal Financing Corporation are the responsibility of management and have been prepared in accordance with Canadian public sector accounting principles. The financial information presented elsewhere in the Annual Report is consistent with the financial statements and the underlying information from which the financial statements were prepared.

The Auditor General of Newfoundland and Labrador, appointed as the external auditor under the *Municipal Financing Corporation Act*, performed an audit on the financial statements in accordance with Canadian generally accepted auditing standards. The Auditor's Report attached to the financial statements outlines the scope of the examination and contains the Auditor General's opinion on the Corporation's financial statements.

AUDITOR'S REPORT & AUDITED FINANCIAL STATEMENTS

The audited Financial Statements are attached.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

FINANCIAL STATEMENTS

MARCH 31, 2014

Office of the Auditor General

Management's Report

Management's Responsibility for the Newfoundland and Labrador Municipal Financing Corporation Financial Statements

The financial statements have been prepared by management in accordance with Canadian public sector accounting standards and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the financial statements, and for ensuring that this information is consistent, where appropriate, with the information contained in the financial statements.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and exercises these responsibilities through the Board. The Board reviews external audited financial statements yearly.

The Auditor General conducts an independent audit of the annual financial statements of the Corporation, in accordance with Canadian generally accepted auditing standards, in order to express an opinion thereon. The Auditor General has full and free access to financial management of the Newfoundland and Labrador Municipal Financing Corporation.

On behalf of the Newfoundland and Labrador Municipal Financing Corporation.

Donna Brewer, CA
Deputy Minister of Finance and
Chairperson, Newfoundland and Labrador
Municipal Financing Corporation

Paul Myrden, CA
Director, Debt Management

June 12, 2014

AUDITOR
GENERAL
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Newfoundland and Labrador Municipal
Financing Corporation
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Newfoundland and Labrador Municipal Financing Corporation which comprise the statement of financial position as at March 31, 2014, the statements of operations, change in net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

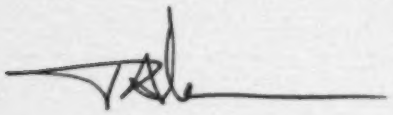
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Newfoundland and Labrador Municipal Financing Corporation as at March 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



TERRY PADDON, CA
Auditor General

June 12, 2014
St. John's, Newfoundland and Labrador

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

STATEMENT OF FINANCIAL POSITION

As at March 31

	2014	2013
	(000's)	(000's)
FINANCIAL ASSETS		
Cash	$ 104	$ -
Portfolio investments (Note 3)	4,666	227
Accounts receivable	2,998	3,287
Accrued interest receivable	116	222
Loans receivable (Note 4)	37,533	51,689
	45,417	55,425
LIABILITIES		
Bank indebtedness	-	1,453
Accounts payable and accrued liabilities	36	11
Accrued interest payable	54	126
Debenture debt (Note 5)	25,630	35,446
Reserve fund (Note 6)	4,210	4,253
	29,930	41,289
Net financial assets	15,487	14,136
NON-FINANCIAL ASSETS		
Deferred charges (Note 7)	37	59
Accumulated surplus	$ 15,524	$ 14,195

The accompanying notes are an integral part of these financial statements.

Signed on behalf of the Board of Directors:

Chairperson **Director**

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

STATEMENT OF OPERATIONS

For the Year Ended March 31

	2014 Budget	2014 Actual	2013 Actual
	(000's) (Note 10)	**(000's)**	(000's)
REVENUES			
Interest on loans to municipal corporations	**$ 3,270**	**$ 3,270**	$ 4,406
Interest on portfolio investments	**35**	**35**	62
	3,305	**3,305**	4,468
EXPENSES			
Administrative and miscellaneous	**114**	**134**	105
Amortization of deferred charges:			
Issue expenses on debenture debt	**15**	**15**	21
Premiums and discounts on debenture debt	**7**	**7**	8
Interest on long-term debt	**1,820**	**1,820**	2,905
	1,956	**1,976**	3,039
Annual surplus	**1,349**	**1,329**	1,429
Accumulated surplus, beginning of year	**14,195**	**14,195**	12,766
Accumulated surplus, end of year	**$ 15,544**	**$ 15,524**	$ 14,195

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the Year Ended March 31

	2014 Budget	2014 Actual	2013 Actual
	(000's) (Note 10)	(000's)	(000's)
Annual surplus	**$ 1,349**	**$ 1,329**	$ 1,429
Use of deferred charges	**22**	**22**	29
Increase in net financial assets	**1,371**	**1,351**	1,458
Net financial assets, beginning of year	**14,136**	**14,136**	12,678
Net financial assets, end of year	**$ 15,507**	**$ 15,487**	$ 14,136

The accompanying notes are an integral part of these financial statements.

NEWFOUNDLAND AND LABRADOR MUNICIPAL FINANCING CORPORATION

STATEMENT OF CASH FLOWS

For the Year Ended March 31

	2014	2013
	(000's)	(000's)
Operating transactions		
Annual surplus	**$ 1,329**	$ 1,429
Adjustment for non-cash items		
Accrued interest income on coupons	**(3)**	(9)
Amortization of issue expenses on debenture debt	**15**	21
Amortization of premiums and discounts on debenture debt	**7**	8
	1,348	1,449
Change in non-cash working capital	**348**	668
Cash provided from operating transactions	**1,696**	2,117
Investing transactions		
Short-term investment	**(4,600)**	-
Investment - coupons redeemed	**164**	357
Loan payments received from municipal corporations	**14,156**	16,590
Cash provided from investing transactions	**9,720**	16,947
Financing transactions		
Retirement of debenture debt	**$ (9,816)**	$ (19,816)
Reserve fund allocations made	**(43)**	(328)
Cash applied to financing transactions	**(9,859)**	(20,144)
Increase in cash/decrease in bank indebtedness (decrease in cash/increase in bank indebtedness)	**1,557**	(1,080)
Bank indebtedness, beginning of year	**(1,453)**	(373)
Cash (bank indebtedness), end of year	**$ 104**	$ (1,453)

The accompanying notes are an integral part of these financial statements.

1. Nature of operations

The Newfoundland and Labrador Municipal Financing Corporation (the Corporation) is established under the *Municipal Financing Corporation Act*. The purpose of the Corporation is to provide long-term financing for the capital requirements of municipal corporations by the issuance of its securities, and relending the funds to municipal corporations. The Corporation's affairs are managed by a Board of Directors appointed by the Lieutenant-Governor in Council. All board members are full-time employees of the Province of Newfoundland and Labrador (the Province).

The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

2. Summary of significant accounting policies

(a) Basis of accounting

The Corporation is classified as an Other Government Organization as defined by Canadian Public Sector Accounting Standards (CPSAS). These financial statements are prepared by management in accordance with CPSAS for provincial reporting entities established by the Canadian Public Sector Accounting Board (PSAB). The Corporation does not prepare a statement of remeasurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by this statement. Outlined below are the significant accounting policies followed.

(b) Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash, portfolio investments, accounts receivable, accrued interest receivable, loans receivable, accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition.

The Corporation subsequently measures all of its financial assets and financial liabilities at cost or amortized cost. Financial assets measured at cost include cash, accounts receivable, accrued interest receivable, and loans receivable. Portfolio investments are measured at cost or amortized cost as disclosed in note 3. Financial liabilities measured at cost include accounts payable and accrued liabilities and accrued interest payable. Debenture debt is measured at amortized cost as disclosed in note 5.

2. Summary of significant accounting policies (cont.)

(b) Financial instruments (cont.)

The carrying values of cash, portfolio investments, accounts receivable, accrued interest receivable, accounts payable and accrued liabilities and accrued interest payable approximate current fair value due to their nature and/or the short-term maturity associated with these instruments. The carrying value of loans receivable and debenture debt is considered to approximate market value.

Interest attributable to financial instruments is reported in the statement of operations.

(c) Cash

Cash includes cash in bank.

(d) Bank indebtedness

Bank indebtedness includes draw downs on the Corporation's operating credit facility, net of cash in bank.

(e) Premiums, discounts and issue expenses on debenture debt

Premiums, discounts and issue expenses are deferred and amortized on a straight-line basis over the life of the debenture issue to which they relate. In the case of the early retirement of debenture debt, a proportionate amount of the deferred balance is included with the gain or loss in the determination of net income for the period.

(f) Portfolio investments

Portfolio investments include Government of Canada coupons at amortized cost and a term deposit recorded at cost.

(g) Loans receivable

The Corporation records loans receivable at amortized cost. Options exist for the recovery from the Province of any defaults by municipal corporations and as such no allowance for doubtful accounts has been provided. Interest is accrued on loans receivable to the extent it is deemed collectible.

2. Summary of significant accounting policies (cont.)

(h) Accounts receivable

Accounts receivable consists of arrears (principal and interest) on loans receivable along with interest charged on the arrears. The Corporation ceased charging interest on arrears in November 2009.

(i) Revenues

Revenues are recognized in the period in which the transactions or events occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impracticable.

Interest income is accounted for using the effective interest method for interest on portfolio investments and interest on loans to municipal corporations receivable. Recognition of interest is in accordance with the terms of the original loan agreement.

(j) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is recorded as an expense in that year.

The Corporation is administered by the Department of Finance. Expenses related to salaries are paid directly by the Department and reimbursed by the Corporation and reflected in these financial statements.

(k) Measurement uncertainty

The preparation of financial statements in conformity with CPSAS requires management to make estimates and assumptions that affect the reporting amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of the revenues and expenses during the period. Items requiring the use of significant estimates include collectability for the loans.

Estimates are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Measurement uncertainty exists in these financial statements. Actual results could differ from these estimates.

3. Portfolio investments

Portfolio investments consist of 5 Government of Canada coupons that were purchased between February 22, 2000 and November 15, 2002, and mature between June 1, 2014 and December 1, 2016. Settlement values of these securities ranged from $1,103 to $3,068 with a total cost of $32,083 (2013 - $118,984), while maturity values range from $2,164 to $6,272 and have a total maturity value of $68,014. In addition, a term deposit was purchased from the Bank of Nova Scotia on March 28, 2014 at a cost of $4,600,000 earning interest at 1.16% per annum and maturing on September 22, 2014. The portfolio investments are valued as follows:

	2014 (000's)	2013 (000's)
Portfolio investments - coupons at cost	$ 32	$ 119
Amortization of discount on portfolio investments	34	108
	66	227
Short-term investment - term deposit	4,600	-
	$ 4,666	$ 227

4. Loans receivable

As at March 31, 2014, loans receivable from municipal corporations were $37,533,434 (2013 - $51,688,972). Interest rates range from 6.375% to 12.000%.

Loans to municipal corporations are made on the security of their debentures. Options exist for the recovery from the Province of any defaults by municipal corporations. Therefore, no allowance for doubtful accounts has been provided.

Principal payments receivable are as follows:

Year	Amount (000's)
2015	11,630
2016	9,296
2017	6,980
2018	4,620
2019	3,115
Thereafter	1,892
	$ 37,533

5. Debenture debt

The Corporation's debenture debt is unconditionally and fully guaranteed as to principal and interest by the Province. Details of debt outstanding are as follows:

Series	Remaining Term	Interest Rate	March 31 2014	March 31 2013	
		%	(000's)	(000's)	
MFC-38			$ -	$ 1,250	
MFC-39			-	1,000	
MFC-40	Dec 14, 2014	6.850	**1,000**	2,000	(a)
MFC-43	Sep 20, 2014-16	6.375 - 6.500	**6,000**	8,000	(b)
MFC-44	Mar 15, 2015-17	6.000 - 6.125	**3,000**	4,000	(c)
MFC-47	Mar 17, 2015-19	4.950 - 5.200	**6,330**	7,596	(d)
MFC-48	Mar 29, 2015-20	4.950 - 5.200	**9,300**	11,600	(e)
Total			**$ 25,630**	$ 35,446	

(a) MFC-40: On December 14, 2014, the Corporation is to redeem $1,000,000

(b) MFC-43: On September 20 of each year, the Corporation is to redeem $2,000,000 in the years 2014 to 2016 inclusive.

(c) MFC-44: On March 15 of each year, the Corporation is to redeem $1,000,000 in the years 2015 to 2017 inclusive.

(d) MFC-47: On March 17 of each year, the Corporation is to redeem $1,266,000 in the years 2015 to 2019 inclusive.

(e) MFC-48: On March 29 of each year, the Corporation is to redeem $2,300,000 in year 2015 and $1,400,000 in the years 2016 to 2020 inclusive.

Estimated debenture maturities are as follows:

Year Ending March 31	Debenture Maturities (000's)
2015	7,566
2016	5,666
2017	5,666
2018	2,666
2019	2,666
Thereafter	1,400
	$ 25,630

6. Reserve fund

The Province has historically funded a reserve fund established to mitigate arrears with respect to municipal loans. The reserve fund is allocated as the Department of Municipal and Intergovernmental Affairs concludes negotiations with various municipal corporations with respect to restructuring debt due to the Corporation.

The year end reserve fund balance is as follows:

	2014 (000's)	2013 (000's)
Reserve fund, beginning of year	$ 4,253	$ 4,581
Less: funds allocated during year	43	328
Reserve fund, end of year	$ 4,210	$ 4,253

7. Deferred charges

	2014 (000's)	2013 (000's)
Issues expenses on debenture debt	$ 26	$ 41
Premiums and discounts on debenture debt	11	18
	$ 37	$ 59

8. Financial risk management

The Corporation recognizes the importance of managing risks and this includes policies, procedures and oversight designed to reduce risks identified to an appropriate threshold. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change in the Newfoundland and Labrador Municipal Financing Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash, portfolio investments, accounts receivable, accrued interest receivable and loans receivable. The Corporation's maximum exposure to credit risk is the carrying amounts of these financial instruments. The Corporation is not exposed to significant credit risk with its cash because this financial instrument is held with a Chartered Bank. The Corporation is not exposed to significant credit risk with portfolio investments or accrued interest receivable because of their nature.

8. Financial risk management (cont.)

Credit risk (Cont.)

The Corporation is also not exposed to significant credit risk with accounts receivable (arrears on loans receivable) and loans receivable since options exist for the recovery from the Province of any defaults by municipal corporations. The Corporation is also not exposed to significant credit risk from accounts receivable, accrued interest receivable and loans receivable due to the Reserve Fund provided by the Department of Municipal and Intergovernmental Affairs.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities, accrued interest payable and debenture debt. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its financial liabilities. Also, the Corporation's debenture debt is long-term with fixed repayment terms as outlined in note 5. In addition, the Corporation has access to an operating credit facility which allows draw downs to a maximum of $3,000,000. As at March 31, 2014, the Corporation had drawn down $0 on its operating credit facility.

Market risk

Market risk is the risk that the fair value or expected future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange or other price risk. In addition, the Corporation is not exposed to significant interest rate risk as its loans receivable and debenture debt are at fixed interest rates.

9. Related party transactions

The Corporation is administered by employees of the Department of Finance. The salary costs of $92,164 (2013 - $70,566) for these employees are paid by the Department of Finance, reimbursed by the Corporation, and are reflected in these financial statements.

10. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Director of Debt Management.

11. Non-financial assets

The recognition and measurement of non-financial assets is based on their service potential. These assets will not provide resources to discharge liabilities of the Corporation. For non-financial assets, the future economic benefit consists of their capacity to render service to further the Corporation's objectives.

12. Planned wind down of operations

The Province of Newfoundland and Labrador has decided that it will no longer refinance its portion of completed municipal capital projects through the Corporation. As a result, the Corporation will be winding up its operations over the coming years as it collects its loans receivable and repays its debenture debt.